AT&T

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Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Oral Ex Parte Communication, In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

Dear Ms. Dortch:

On Tuesday, October 1, 2002, Joel Lubin and the undersigned, representing AT&T, met with Chris Libertelli, Legal Advisor to Chairman Michael Powell. The purpose of the meeting was to respond to BOC presentations and assertions regarding the economics of UNE-P service offerings and the impact of UNE-P on BOC financials. All comments made at the meeting were consistent with the attached presentation materials.

As part of the discussion, we shared with Chris a Bear Stearns Equity Research report which summarizes a September 10, 2002 meeting between it and SBC management and which provides the basis for part of AT&T's UNE-P presentation. SBC's assertions to Bear Stearns are in many ways contrary to the assertions being made by SBC to this Commission.

First, as to the long distance market, the report notes that "RBOC pricing is in-line or higher than the IXCs." This curious "meet-them or exceed-them" pricing strategy effectively rebuts the oft-repeated Bell company chorus that Bell entry into long distance markets generates significant consumer benefits.

Second, SBC "assumes that it can achieve 30% market share 12 months after entering a new [long distance] market and is targeting a long run (3-4 years) penetration rate in the 60% - 70% range." Given the conceded Bell company pricing strategy these are extraordinary projections. They certainly confirm that the Bells retain substantial power in the market for bundled local and long distance services, and that local markets are far from competitive.

Third, SBC's projected gains in the long distance market stand in contrast to its relatively modest losses in local markets. This disparity makes all the more unseemly SBC's campaign to gain government protection against UNE-based competition in local voice telephone markets.

Finally, SBC asserts that it can partly stabilize its local market losses by offering bundled packages of local and long distance services. Thus, even SBC concedes that the answer to SBC's concerns with local market competition is for it to comply with its Section 271 obligations throughout its region -- not to seek government protection from local competition.

I also made reference to a September 13 report on BellSouth by Lehman Brothers Equity Research, a copy of which is attached. On a field trip to BellSouth headquarters, Lehman Brothers found BellSouth senior management to be "upbeat," "optimistic" and "enthusiastic" about their growth businesses. Lehman Brothers reports:

<u>On LD and UNEs</u>: "BellSouth emphasized that their success in entering the LD market through 271 approval offers a considerable competitive advantage over the UNE players, and they expect that the appeal of Local/LD bundles will obviate the need for a major change in the UNE regulations."

<u>On DSL</u>: "Management is particularly enthusiastic about the progress of its DSL business, both from a growth and an economic standpoint. . . . The DSL business is projected to be EBITDA breakeven by YE02. The company believes the business will be solidly EBITDA positive in '03, bolstering overall margins."

<u>On DSL v. cable broadband services</u>: "In the second quarter, BellSouth's DSL business for the first time took a greater share of new broadband subscribers (51%) than the cable competition."

<u>On capital spending</u>: "Of the total 2002 capex budget, which represents about 17% of revenue expectations, management estimates that about 34% is for targeted new technologies. . . . . The roughly 1/3 of the capex budget is designed to boost the strategic capacity of the network to capture future growth opportunity."

These statements stand in contrast to a recent FCC presentation by BellSouth entitled "Wireline Telecommunications: Situation Analysis and Recommendations." In that presentation, BellSouth asserted that the telecom industry was in a crisis of "destructive competition" with huge, long-term negative implications for investment and innovation. BellSouth referred to the limited potential of long distances services and lagging BellSouth DSL market share (among other things), arguing that the "uneconomic rules related to network unbundling have destroyed value in the facility-based carriers and discouraged investment and innovation." These proclamations are a far reach from the messages delivered by BellSouth to Lehman Brothers, which views BellSouth as a "strong value" capable of generating $5-6 B in free cash flow in 2002.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

Joan Marsh

cc: Chris Libertelli
Thomas Navin
Robert Tanner
Jeremy Miller